

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

WOODBIDGE GROUP OF COMPANIES, LLC,
et al.,¹

Remaining Debtors.

MICHAEL GOLDBERG, in his capacity as
Liquidating Trustee of the WOODBRIDGE
LIQUIDATION TRUST,

Plaintiff,

vs.

KENNETH HALBERT,

Defendant.

Chapter 11

Case No. 17-12560 (BLS)

(Jointly Administered)

Adversary Proceeding

Case No. 19-_____ (BLS)

**COMPLAINT FOR AVOIDANCE
AND RECOVERY OF AVOIDABLE TRANSFERS**

The Woodbridge Liquidation Trust (the “Liquidation Trust” or “Plaintiff”) formed pursuant to the *First Amended Joint Chapter 11 Plan of Liquidation of Woodbridge Group of Companies, LLC and Its Affiliated Debtors* dated August 22, 2018 (Bankr. Docket No. 2397) (as it may be amended, modified, supplemented, or restated from time to time, the “Plan”²), as and for its *Complaint for Avoidance and Recovery of Avoidable Transfers* (this “Complaint”) against Kenneth Halbert (“Defendant”), alleges as follows:

¹ The Remaining Debtors and the last four digits of their respective federal tax identification numbers are as follows: Woodbridge Group of Companies, LLC (3603) and Woodbridge Mortgage Investment Fund 1, LLC (0172). The Remaining Debtors’ mailing address is 14140 Ventura Boulevard, #302, Sherman Oaks, California 91423.

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Plan.

NATURE OF THE ACTION

1. Since at least August 2012 until shortly before they sought bankruptcy protection, Woodbridge Group of Companies, LLC and its many hundreds of debtor affiliates (collectively, the “Debtors”) were operated by their founder and principal, Robert Shapiro (“Shapiro”), as a Ponzi scheme. As part of this fraud, Shapiro utilized the Debtors to raise over one billion dollars from approximately 10,000 investors as either Noteholders or Unitholders (collectively, “Investors”).

2. Those Investors often placed a substantial percentage of their net worth (including savings and retirement accounts) with the Debtors and now stand to lose a significant portion of their investments and to be delayed in the return of the remaining portion. The quality of the Investors’ lives will likely be substantially and adversely affected by the fraud perpetrated by Shapiro.

3. Investors were often told that they were investing money to be loaned with respect to particular properties owned by third parties, that those properties were worth substantially more than the loans against the properties, and that they would have the benefit of a stream of payments from these third parties for high-interest loans, protected by security interests and/or mortgages against such properties. In reality, these statements were lies. Investors’ money was almost never used to make high-interest loans to unrelated, third-party borrowers, there was no stream of payments, Investors’ money was commingled and used for an assortment of expenses, including maintaining a lavish lifestyle for Shapiro and his family, brokers’ commissions, overhead (largely for selling even more notes and units to investors), and payment of principal and interest to existing investors. The money that was used to acquire property

(almost always owned by a disguised affiliate) cannot be traced to any specific Investor. These are typical characteristics of Ponzi schemes.

4. Because the Debtors operated as a Ponzi scheme, obtaining new money from Investors into the Ponzi scheme conferred no net benefit on the Debtors; on the contrary, each new investment was a net negative. Money was siphoned off to pay the expenses described above, so that the Debtors actually received only a fraction of the investment dollars. New money also perpetuated the Ponzi scheme, enabling the Debtors to return fictitious profits to early Investors; in the absence of new investment, the house of cards would fall (as it eventually did). At the same time, each investment created an obligation to return to the defrauded Investor 100% of the investment, such that each new investment increased the Debtors' liabilities and ultimately left them unable to satisfy their aggregate liabilities.

5. The purpose of this lawsuit is to (a) avoid and recover monies previously paid to Defendant as "net winnings," interest paid during the pendency of the Ponzi scheme on "bridge" loans provided by Defendant to the Debtor which loans were repaid in full prior to the Initial Petition Date.

JURISDICTION AND VENUE

6. The Court has jurisdiction over this action under 28 U.S.C. §§ 157(a) and 1334. This adversary proceeding is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2)(B), (C), (F), and (H). In any event, Plaintiff consents to entry of final orders or judgment by this Court. Venue of this adversary proceeding is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

THE PARTIES

The Liquidation Trust

7. On December 4, 2017 (the “Initial Petition Date”), certain of the Debtors commenced voluntary cases under chapter 11 of the Bankruptcy Code. Other of the Debtors also filed voluntary chapter 11 cases either on the Initial Petition Date or within the following four months (collectively, the “Bankruptcy Cases”).

8. On October 26, 2018, this Court entered an order confirming the Plan (Bankr. Docket No. 2903).

9. The Plan provides for, *inter alia*, the establishment of a the Liquidation Trust on the Effective Date of the Plan for the benefit of the Liquidation Trust Beneficiaries in accordance with the terms of the Plan and the Liquidation Trust Agreement. *See* Plan §§ 1.75, 5.4.

10. The Effective Date of the Plan occurred on February 15, 2019.

11. On February 25, 2019, the Court entered an order closing the Bankruptcy Cases of all Debtors except Woodbridge Group of Companies, LLC and Woodbridge Mortgage Investment Fund 1, LLC (together, the “Remaining Debtors”). The Remaining Debtors’ Bankruptcy Cases are being jointly administered under Case No. 17-12560 (KJC).

12. On the Effective Date, the Liquidation Trust was automatically vested with all of the Debtors’ and the Estates’ respective rights, title, and interest in and to all Liquidation Trust Assets. *See* Plan § 5.4.3. Further, the Liquidation Trust, as successor in interest to the Debtors, has the right and power to file and pursue any and all Liquidation Trust Actions without any further order of the Bankruptcy Court. *Id.* § 5.4.15. “Liquidation Trust

Actions” include, *inter alia*, “all Avoidance Actions and Causes of Action held by the Debtors or their Estates. . . .” *Id.* § 1.76.

Defendants

13. Defendant Kenneth Halbert is an individual residing in the State of Florida. Upon information and belief, Defendant Kenneth Halbert also maintains a residence in Las Vegas, Nevada.

FACTUAL ALLEGATIONS COMMON TO ALL CLAIMS

14. Within the two years preceding the Initial Petition Date, Defendant received transfers from the Debtors totaling not less than the amount set forth on Exhibit A hereto (the “Two Year Transfers”), as Prepetition Distributions of fictitious profits from the Ponzi scheme in respect of bridge loans provided by Defendant to the Debtors to perpetuate the Ponzi scheme. The precise transfers – including the transferor, its petition date, the date of each transfer, and the amount of each transfer – are set forth on Exhibit A.

15. Within the four years preceding the Initial Petition Date, Defendant received transfers totaling not less than the amount set forth on Exhibit A hereto (the “Four Year Transfers” and, collectively with the Two Year Transfers, the “Transfers”), as Prepetition Distributions of fictitious profits from the Ponzi scheme in respect of bridge loans provided by the Defendant to the Debtors to perpetuate the Ponzi scheme. The precise transfers – including the transferor, its petition date, the date of each transfer, and the amount of each transfer – are set forth on Exhibit A. The Four Year Transfers are inclusive of the Two Year Transfers, but Plaintiff does not seek to recover the same sum more than once.

FIRST CLAIM FOR RELIEF

[Avoidance and Recovery of Actual Intent Fraudulent Transfers – Bankruptcy Code]

16. Plaintiff realleges and incorporates the aforementioned paragraphs as if fully set forth herein.

17. The Two Year Transfers constituted transfers of the Debtors' property.

18. The Two Year Transfers were made by the Debtors with actual intent to hinder or delay or defraud their creditors insofar as the transfers were prepetition distributions of fictitious profits from the Ponzi scheme in respect of funds let by Defendant to help the Debtors perpetuate a Ponzi scheme.

19. The Two Year Transfers were made to or for the benefit of Defendant.

20. As a result of the foregoing, Plaintiff is entitled to judgment pursuant to Bankruptcy Code sections 548(a), 550(a), and 551: (a) avoiding the Two Year Transfers free and clear of any claimed interest of Defendant, (b) directing that the Two Year Transfers be set aside, and (c) recovering such Two Year Transfers or the value thereof from Defendant for the benefit of the Liquidation Trust.

SECOND CLAIM FOR RELIEF

[Avoidance and Recovery of Constructive Fraudulent Transfers – Bankruptcy Code]

21. Plaintiff realleges and incorporates the aforementioned paragraphs as if fully set forth herein.

22. The Two Year Transfers constituted transfers of the Debtors' property.

23. The Two Year Transfers were made by the Debtors for less than reasonably equivalent value at a time when the Debtors (i) were insolvent; and/or (ii) were

engaged or about to engage in business or a transaction for which any capital remaining with the Debtors were an unreasonably small capital; and/or (iii) intended to incur, or believed that Debtors would incur, debts beyond their ability to pay as such debts matured.

24. The Two Year Transfers were made to or for the benefit of Defendant.

25. As a result of the foregoing, Plaintiff is entitled to judgment pursuant to Bankruptcy Code sections 548(a), 550(a), and 551: (a) avoiding the Two Year Transfers free and clear of any claimed interest of Defendant, (b) directing that the Two Year Transfers be set aside, and (c) recovering such Two Year Transfers or the value thereof from Defendant for the benefit of the Liquidation Trust.

THIRD CLAIM FOR RELIEF

[Avoidance and Recovery of Actual Intent Voidable Transactions – State Law]

26. Plaintiff realleges and incorporates the aforementioned paragraphs as if fully set forth herein.

27. The Four Year Transfers constituted transfers of the Debtors' property.

28. The Four Year Transfers were made by the Debtors with actual intent to hinder or delay or defraud their creditors insofar as the transfers were prepetition distributions of fictitious profits from the Ponzi scheme in respect of funds lent by Defendant to help the Debtors perpetuate a Ponzi scheme.

29. The Four Year Transfers were made to or for the benefit of Defendant.

30. Each Debtor that made one or more of the Four Year Transfers has at least one creditor with an allowable unsecured claim for liabilities, which claim remained unsatisfied as of the Petition Date.

31. The Four Year Transfers are avoidable under applicable law – California Civil Code section 3439.04(a)(1) and/or comparable provisions of law in other jurisdictions that have adopted the Uniform Voidable Transactions Act, the Uniform Fraudulent Transfer Act or the Uniform Fraudulent Conveyance Act – by a creditor holding an allowed unsecured claim and thus by Plaintiff pursuant to Bankruptcy Code section 544(b).

32. As a result of the foregoing, Plaintiff is entitled to judgment pursuant to Bankruptcy Code sections 544(b), 550(a), and 551: (a) avoiding the Four Year Transfers free and clear of any claimed interest of Defendant, (b) directing that the Four Year Transfers be set aside, and (c) recovering such Four Year Transfers or the value thereof from Defendant for the benefit of the Liquidation Trust.

FOURTH CLAIM FOR RELIEF

[Avoidance and Recovery of Constructive Voidable Transactions – State Law]

33. Plaintiff realleges and incorporates the aforementioned paragraphs as if fully set forth herein.

34. The Four Year Transfers constituted transfers of the Debtors' property.

35. The Four Year Transfers were made by the Debtors for less than reasonably equivalent value at a time when the Debtors (i) were insolvent; and/or (ii) were engaged or was about to engage in business or a transaction for which any capital remaining with the Debtors were an unreasonably small capital; and/or (iii) intended to incur, or believed that it would incur, debts beyond their ability to pay as such debts matured.

36. The Four Year Transfers were made to or for the benefit of Defendant.

37. At the times of, and/or subsequent to, each of the Four Year Transfers, each Debtor that made one or more of the Four Year Transfers has at least one creditor with an allowable unsecured claim for liabilities, which claim remained unsatisfied as of the Petition Date.

38. The Four Year Transfers are avoidable under applicable law – California Civil Code section 3439.04(a)(2) and/or comparable provisions of law in other jurisdictions that have adopted the Uniform Voidable Transactions Act, the Uniform Fraudulent Transfer Act or the Uniform Fraudulent Conveyance Act – by a creditor holding an allowed unsecured claim and thus by Plaintiff pursuant to Bankruptcy Code section 544(b).

39. As a result of the foregoing, Plaintiff is entitled to judgment pursuant to Bankruptcy Code sections 544(b), 550(a), and 551: (a) avoiding the Four Year Transfers free and clear of any claimed interest of Defendant, (b) directing that the Four Year Transfers be set aside, and (c) recovering such Four Year Transfers or the value thereof from Defendant for the benefit of the Liquidation Trust.

PRAYER FOR RELIEF

WHEREFORE, by reason of the foregoing, Plaintiff requests that the Court enter judgment:

1. On the first, second and third claims for relief, (a) avoiding the Two Year Transfers free and clear of any claimed interest of Defendant, (b) directing that the Two Year Transfers be set aside, and (c) ordering Defendant to pay to Plaintiff the Two Year Transfers in the amount of \$596,408.07;

2. On the fourth claim for relief, (a) avoiding the Four Year Transfers free and clear of any claimed interest of Defendants, (b) directing that the Four Year Transfers be set aside, and (c) ordering Defendants to pay to Plaintiff the Four Year Transfers in the amount of \$1,082,175.31;

3. On all claims for relief, awarding Plaintiff prejudgment interest as permitted by law; and

4. For such other and further relief as the Court may deem just and proper.

Dated: December 1, 2019

/s/ Colin R. Robinson
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